



UNIVERSITI PUTRA MALAYSIA

**STRATEGIC MANAGEMENT
A CASE OF
NUSANTARA WORLDWIDE INSURANCE (M)
BERHAD**

MOHDSABIRIN B. HJ MOHD SARBINI

GSM 1999 27

STRATEGIC MANAGEMENT

A CASE OF

NUSANTARA WORLDWIDE INSURANCE (M)

BERHAD

MOHD SABIRIN B. HJ MOHD SARBINI

MASTER OF BUSINESS ADMINISTRATION

UNIVERSITI PUTRA MALAYSIA

FEBRUARY 1999



UNIVERSITI PUTRA MALAYSIA
FACULTY OF ECONOMICS AND MANAGEMENT

CASE STUDY
EP 598

LECTURER : PROF. Madya DR. ZAINAL ABIDIN
MOHAMED

NUSANTARA WORLDWIDE INSURANCE (M) BHD

Prepared by :
MOHD SABIRIN B HJ MOHD SARBINI
51337
MBA

ACKNOWLEDGEMENT

Above all, my greatest gratitude to Allah for the guidance, inspiration and consent, without which this study could not be successful.

Million thanks to my parents and family for their prayerful support and concern during a difficult period of my life when this study was being carried out.

I would like to express my special thanks to my supervisor, Prof Madya Dr. Zainal Abidin bin Mohammed, for his kind supervision, guidance and constant encouragement throughout this study. The support of respective individuals and colleagues of the NWI (M) Bhd in providing assistance and information, therefore made this study possible are also acknowledge.

Lastly, I wish to express my greatest appreciation and thanks to Suzana bt. Salim and family for the kind assistance, my lecturers and friends who helped me, in one way or another, throughout the preparation of this project paper. For all this assistance, I express my sincere thanks.

May Allah Bless you all.....

LIST OF TABLES

	Page
Table 1	65
Table 2	66
Table 3	68
Table 4	69
Table 5	71
Table 6	73
Table 7	77
Table 8	80
Table 9	82
Table 10	87
Table 11	94



LIST OF FIGURES

	Page
Figure 1	6
Figure 2	29
Figure 3	49
Figure 4	50
Figure 5	74
Figure 6	85
Figure 7	90
Figure 8	98
Figure 9	99

Abstract

Strategic Management practices and success is still an issue debated by groups or individuals where unsuccessful implementation and results are derived within many organizations and companies. However, it is also determined that the default is due to the respective organizations and companies insufficient focus and actions towards the highlighted alternatives.

The case study is to apply strategic management concepts and techniques to overcome a real-life issue and in this case, for Nusantara Worldwide Insurance (M) Berhad an insurance company which is experiencing a major decline in its performance and profitability.

Analysis were conducted involving the company's external and internal environment in order to match the company's opportunities and threats with its strengths and weaknesses. Variables and strategic factors were derived from current impact and company's experience in the industry and relevant internal information (eg. Reports, schedules, individuals and etc.). SWOT matrix and SPACE models were used to solve the issue.

The case analysis derived to recommendation that NWI should pursue the 'growth strategy' with sufficient usage and allocation of funds from the company's financial ability. The development of 'NWI Action Plan' which consist of three

action plans (NWI-AP1, NWI-AP2 and NWI-AP3) are aimed to facilitate the difficulties and constraint which the company experiencing. This action plan suggested to be implemented in 1999 with the budget of RM145,000.00.

To conclude, in order to increase the effectiveness of the strategy, it is proposed to implement the NWI Corporate values (external and internal) to enhance the perceptions and performance of the company in approaching the new millennium.

CONTENT

	Page
ACKNOWLEDGEMENT	i
LIST OF TABLE	ii
LIST OF FIGURES	iii
ABSTRACT	iv
CONTENT	v
EXECUTIVE SUMMARY	vi
PART I	
1.0 Introduction	1
1.1 Board of Directors	4
1.2 Management	5
1.3 The Vision	7
1.3.1 The Vision	8
1.3.2 Vision – The Summary	9
1.4 Corporate Mission	10
1.4.1 Mission – The Summary	11
1.5 Positioning Statement	12
1.6 Company's Operation	13
1.7 Company Performance	14
1.7.1 Pretax Profit	14
1.7.2 Underwriting Profit	15
1.7.3 Gross Written Premium (GWP)	15
1.7.4 Commission	15



1.7.5	Management Expenses	16
1.7.6	Profit on Sale on Investment	16
1.8	Asian Crisis – Insurer Solvency Woes	17
1.9	Asia Crisis – The Evolution	19
APPENDIX 1		25
APPENDIX 2		26
APPENDIX 3		27
2.0	Statement of Issue	29
3.0	External Environment Strategic Factors	31
3.1	Determinants of Environmental Analysis	31
3.1.1	General Environment	31
3.1.2	Industry Environment	36
4.0	Internal Environment Strategic factors	38
APPENDIX 4		43
5.0	Methodology	44
5.1	Analysis Determinants	44
5.2	Limitation of Study	45
APPENDIX 5		47
PART II		
1.0	Introduction	58
1.1	Financial Statement Analysis – Ratio Analysis	59
1.1.1	Liquidity Ratio	60
1.1.2	Debt Management Ratio	61

APPENDIX 6	63
2.0 External and Internal Strategic Factors Analysis	64
3.0 The Analysis	67
3.1 SWOT Analysis	67
3.2 SPACE Model	70
3.3 Findings	72
3.3.1 SWOT Analysis-result	72
3.3.2 SPACE Determinants	74
4.0 Action Plan	75
4.1 NWI Action Plan Strategy	78
4.1.1 NWI-AP1	78
4.1.2 NWI-AP2	80
4.1.3 NWI-AP3	91
5.0 Conclusion and Recommendation	95
REFERENCES	

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

The impact of the General Agreement on Trade and Services (GATS) is going to be significant. The domestic industry must be prepared for the progressive removal of barriers to the insurance services as well.

As the country opens its doors to foreign players, Malaysian insurers will face challenges of competitions with some of the best run insurance organizations from other parts of the world which are operating at global standards. The pressure on Malaysia to further liberalize the insurance market to foreign insurance providers will be strong and will intensity. The competitions will be inevitable and this means that only the financially strong, technically competent and efficiently managed insurers will survive and prosper.

Furthermore, the Asian crisis has taken the world by surprise. The region that has been touted as the region of the next millennium has literally taken a step backward in its astounding growth. The countries are struggling with collapsing currencies and plunging stock markets. Following the Thai Bath, the Malaysian Ringgit has depreciated more than 45%, and its stock market nosedived losing more than 50% of its value.¹ This has forced the government to scrap most of its mega projects and during the budget the government

announce a furious cut in spending. Much of the Malaysian problem lies in the fact that there are too much prestige and projects which are unnecessary.² In Malaysia, these scenarios affected the consumer buying powers especially to the service industries. It is estimated more than 15,000 have been retrenched throughout the year.³

NWI (M) Bhd has established itself as a follower in the insurance industry and is experiencing a tremendous decline in the company performance, and the above scenarios worsen the current situation. Despite economic difficulties in the region, declining consumer buying power and the aggressive competition from existing bigger companies have made the business even harder to compete. NWI must strive to enhance the company performance and profitability in order for the company to ensure business continuity and to comply with future claims and debts as failure to comply with these 'insurance' requirements, the situation will put NWI at stake for penalization by Bank Negara Malaysia with reference to the stringent Insurance Act 1996.

NWI CEO En. Mohamad Arif b. Osman, recently stated that the company is currently using the existing fund in order to overcome the existing and future claims and debts due to the unsatisfactory profitability of production. Furthermore the CEO mentioned that if the company fails to achieve better

¹ Gecker, J., Rising from the ashes, Accountancy May 1998 volume 121

² Malaysian too much prestige projects. ibid

³ Labour Trend Market, ibid

performance the company would not be able to comply with the Insurance Act 1996 requirements (eg. Capitalization, assets availability, debts and etc.) If the aforementioned situation arises the company will be forced to implement the survival option as being practiced currently by difficult companies in the country (eg. Retrenchment, Pay cut, Liquidation and etc.)

Determining the attainment of an appropriate match or fit between NWI environment and its strategy, structure and decisions is a systematic process involving many interrelated factors. The same strategies that proven to be successful in meeting with yesterday's business environment may be ineffective in meeting today's ever-changing and even-increasing economic pressure and competition. This effort can somehow recognize as about decision making and actions which determine whether an organization excels, survives or dies.

In this respect, Nusantara Worldwide Insurance (M) Berhad will have to addressed this issues to ensure its survival before the end of this millennium. Thus, the company must proceed forging ahead with strategic plans to further strengthen its position in this increasingly competitive industry.

PART I

CASE WRITING

1.0 INTRODUCTION

The insurance industry became popular and gains the acceptance amongst the population, which grew and changes tremendously. As mentioned by NWI CEO, consumer will increasingly source for innovative solutions and value added products and services. It is in this scenario that the insurance company must react. Only those who deliver the above and demonstrate the highest professional, ethical and moral standards will flourish. In conjunction to this, strategic management decision has to be made in order to be at a competitive advantage and the best is the insurance industry.

1.1 Background Information

Nusantara Worldwide Insurance (M) Berhad was conceived as a Branch office of Norwich Union of the United Kingdom in 1963. The company was incorporated as a Malaysian company in 1976 and assumed the name of Norwich Winterthur Insurance (Malaysia) Sdn Bhd. Initially, the equity shareholding of Norwich Winterthur Insurance (Malaysia) Sdn Bhd was divided among the following :-

Koperasi Polis DiRaja Malaysia Berhad	33.34%
Hong Leong Assurance Sdn Bhd	33.33%

Norwich Winterthur Overseas Ltd	33.33%
---------------------------------	--------

A Sale & Purchase Agreement between Koperasi Polis DiRaja Malaysia Bhd and Hong Leong Assurance Sdn Bhd was signed on 31 December, 1990 which saw the transfer of Hong Leong Assurance Sdn Bhd's shareholding of 33.33% to Koperasi Polis DiRaja Malaysia Bhd. The equity shareholding was then revised to :

Koperasi Polis DiRaja Malaysia Berhad	66.67%
Norwich Winterthur Overseas Ltd.	33.33%

The untimely dissolution of Norwich Winterthur Overseas Ltd worldwide rendered it necessary for remaining shares held by the dissolved company. As being the sole shareholder of Norwich Winterthur Insurance (Malaysia) Sdn Bhd, the company was renamed Nusantara Worldwide Insurance (Malaysia) Sdn Bhd to reflect the status quo (Appendix 1). Upon the success of the company performance, the company gain advantages and formed Nusantara Worldwide Insurance (Malaysia) Berhad on 9th April 1997 (Appendix 2). The company commenced business in General Insurance such as Fire, Accident, Liability, Marine, Engineering and others.

Branches

The company has ten branches i.e Penang, Ipoh, Johor Bahru, Kuching, Kota Kinabalu, Kuantan, Klang, Melaka, Bintulu and Sungai Petani. The company is in the process of obtaining approval from Bank Negara Malaysia for new branches to be opened in Langkawi, Sandakan and Tawau.

Capitalization

With the increased in business resulting from an expansion program, the company has increased its paid-up capital from RM6.5 million to RM26.0 million. This will be further increased to RM30.0 million in the near future.

Initially, the company also has increased the authorized capital from RM30,000.00 to RM100,000.00 on 25th March 1997.

1.1 Board of Directors

- YBhg Dato' Zulkifli Bin Abdul Rahman (Chairman)
- YBhg Datuk Hj Mohd Shahir Bin Abdul Majid (Deputy Chairman)
- Mohamad Bin Mahdin
- Low Wan Theong @ Low Wan Teong
- Haji Abu Bakar Bin Mohd Hussein

Company Secretary

- Tengku Maizurah Bt Tengku Ishak

1.2 Management

Chief Executive Officer

Mohd Ariff Bin Osman

Assistant General Manager

Arumugam s/o Kannusamy

Jasmin Bin Samjis

Rais Bin Abu Noh

Financial Controller

Fatimah Bt Abd Wahab

Senior Manager

Chong Wai Hong

- Operation

Ismail Bin Kasim

- Information Technology

Managers

Lim Fung Thong

- Marketing (Agency)

Zulkifli Bin Mat Talib

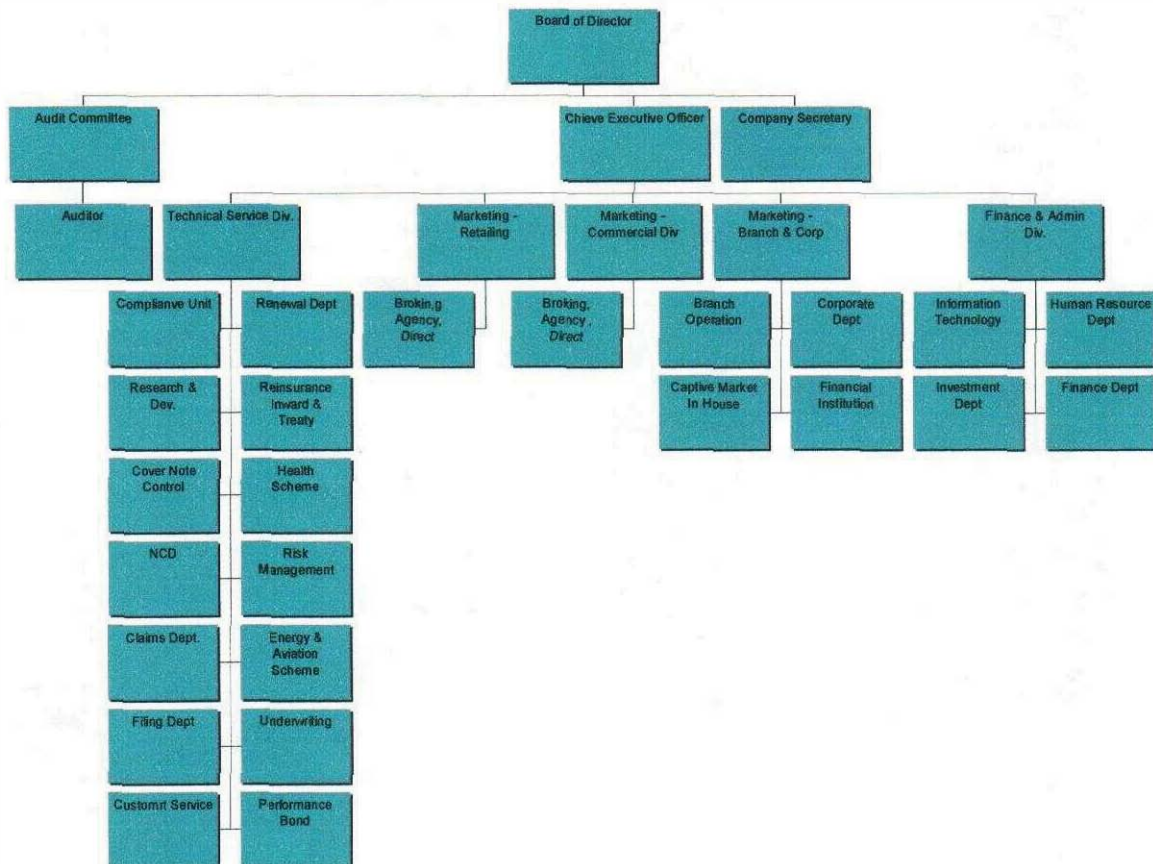
- Operation

Naim Bin Nordin

- Claims

- Figure 1 disclose the NWI organization structure for 1998

Figure 1 : NWI (M) Bhd Organization Structure 1998



1.3 The vision

A vision is formulated by explicitly identifying a domain for competitive behaviour, a set of sources of competitive strength, and a profile for resource capability. In other words a vision implies a capability construct. This capability construct is determined by many factors including the managerial competence and capacity, the logistic and the technological profile, as well as the financial resource access of the firm.

NWI vision and mission statement was developed in 1997, derived from the awareness of the importance to proper documentation of company's objectives and means to achieve. The development is also aimed to cater for competing in the mean future environment.

Furthermore, a good vision is realistic and feasible. It provides a challenge for the whole organization and mirrors of the goals of constituents.¹

¹ El Namaki, Long Range Planning .Vol 25 (1995)

1.3.1 The vision – NWI (M) Bhd

~ Nusantara Worldwide Insurance (Malaysia) Sdn Bhd recognizes that Malaysia will be a fully developed country by the year 2020.

~ The Malaysian insurance market will grow and change rapidly as would a prosperous society that is more scientific and progressive a society that is innovative and forward looking, with an economy that is fully competitive, dynamic, robust and resilient.

~ Consumers will increasingly turn to insurers that deliver innovative, value-added products and services, insurers who demonstrate the highest professional, ethical and moral standards.

~ Nusantara Worldwide Insurance (Malaysia) Sdn Bhd will succeed in this environment by anticipating and responding to the changing needs of the market industry.

~ Backed by one of Malaysia's strongest cooperatives, we will lead the way to higher industrial standards and participate in Malaysia's development.

~ We will fulfill our promises to our shareholders, policyholders, agency force and staff.

1.3.2 VISION – The Summary

The recognition on Malaysia's continuous development towards the year 2020 will result in a rapid extension in country's insurance market. Nusantara Worldwide Insurance (M) Berhad foresee to faced with a develop population. Successor in the insurance industry will be the company whom is able to provide quality and reliable services. Headed by visioning and capable personals the company beliefs that NWI will strive in the future and by serving under the umbrella of Malaysia's strongest cooperatives.

In order for NWI to progress in this new millenium, the company has endorsed a corporate vision and mission in 1997 to ensure that this new awakening will enable the company to conduction and adapt itself towards the environment.